

C. DUKES SCOTT
EXECUTIVE DIRECTOR

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DAN F. ARNETT
CHIEF OF STAFF

RECEIVED
2005 APR -1 PM 2:44
SC PUBLIC SERVICE
COMMISSION

April 1, 2005

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: South Carolina Electric & Gas Company – Annual Review
Docket No. 2005-2-E

Dear Mr. Terreni:

Enclosed for filing please find sixteen (16) copies each of the Settlement Agreement, Joint Motion Requesting Approval of Settlement Agreement and Proposed Order Approving and Adopting Settlement Agreement in the above-referenced matter. Please date stamp one copy and return it to me via our courier. Also, please note that original signatures will be provided by April 6, 2005.

We have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

Shannon B. Hudson

SBH/cc
Enclosures

cc: Mitchell Willoughby, Esquire (w/enclosures)
John F. Beach, Esquire (w/enclosures)
Scott Elliott, Esquire (w/enclosures)
Damon E. Xenopoulos, Esquire (w/enclosures)
John J. Pringle, Jr., Esquire (w/enclosures)
Catherine D. Taylor, Esquire (w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-2-E

RECEIVED
2005 APR -1 PM 2:44
SC PUBLIC SERVICE
COMMISSION

IN RE: South Carolina Electric & Gas)
Company – Annual Review)
of Base Rates for Fuel)
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Shannon Hudson, an employee with the Office of Regulatory Staff, have this date served one (1) copy each of the **Settlement Agreement, Joint Motion Requesting Approval of Settlement Agreement and Proposed Order Approving and Adopting Settlement Agreement** in the above-referenced matter to the person(s) named below by causing said copy to be delivered or deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

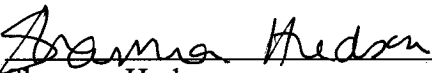
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Brickfield Burchette Ritts & Stone, PC
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Columbia, SC 29201


Shannon Hudson

April 1, 2005
Columbia, South Carolina

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RECEIVED
SOUTH CAROLINA
PUBLIC SERVICE
COMMISSION

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2005-2-E

APRIL 1, 2005

IN RE:

South Carolina Electric & Gas Company -
Annual Review of Base Rates for
Fuel Costs

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), SMI Steel-South Carolina ("SMI Steel") and South Carolina Electric & Gas Company ("SCE&G") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2004), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions, most recently on March 29, 2005, to determine if a settlement of the issues would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witnesses A.R. "Randy" Watts and Jacqueline R. Cherry, without objection, change, amendment or cross-examination. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than this Settlement Agreement.

2. As a compromise to positions advanced by ORS, SCEUC, SMI Steel and SCE&G, all Parties agree to the proposal recommended to the Commission by witness Watts on behalf of ORS in his pre-filed testimony in the above docket. This position is set out immediately below and is hereby adopted, accepted and acknowledged as the agreement of the Parties:

ORS recommends that an amount equal to the under recovery be levelized over a two year period. This recommendation is based on several factors. As mentioned previously, the Company's projected total average coal costs for 2005 and 2006 are relatively level and then increase in 2007. The third year is accompanied by more uncertainty in the projections. ORS's recommendation will help stabilize the factor and tend to minimize fluctuations while affording the opportunity to review costs and operational data at succeeding fuel review proceedings.

While ORS recognizes that S.C. Code Ann. §58-27-865(B) indicates that any under recovery should be recovered during the next twelve months, ORS also recognizes that the Commission previously allowed an amortization of an under recovery over a two year period. See Commission Order No. 2001-397 issued in Docket No. 2001-2-E, SCE&G – Annual Review of Base Rates for Fuel Costs. In addition, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (added by Act 175), and ORS believes such a two year levelizing period would serve the public interest. S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services."

This two year levelization period would balance concerns of the using public while preserving the financial integrity of the Company. ORS also believes a two year levelization period would not inhibit economic development.

ORS also recommends that the first dollars recovered in the succeeding twelve months beginning May 2005 be applied to the under recovery so that in the next fuel proceeding for the Company any under recovery will be for the period May 2005 to May 2006. This will serve to protect the integrity of the statutory scheme as well as the financial integrity of the Company.

3. For purposes of this Settlement Agreement, all Parties agree that the appropriate fuel factor for SCE&G to charge for the period beginning with the first billing cycle in May 2005 extending through the last billing cycle of April 2006 is 2.256 cents per kwh.

4. ORS agrees to conduct a review and study of SCE&G's fuel purchasing methods. The ORS study is to include the forecasted months of February, March and April 2005 and will continue through at least the 2005 summer peaking months before a recommendation is made based on its findings. ORS will have complete and total control and responsibility over the methods and procedures that it may employ to conduct its review, but agrees to meet with any Party requesting such a meeting at the outset of its review to receive suggestions, input and ideas regarding the scope and details of the review. ORS requests that Parties provide suggestions, input and ideas, preferably in writing, as early as possible, but will not impose a deadline for receiving such information. In addition, ORS has agreed that it will hold meetings with any Party or its expert(s), at the request of such Party, during the progress of its review to receive

interim comments or suggestions regarding the status, focus and scope of its review. At the completion of its review, ORS agrees to issue a written report which will set forth its findings and conclusions. A report setting forth the ORS findings will be issued before December 31, 2005. A copy of the report will be provided to the Parties upon its completion, and ORS agrees to meet with any party or parties to discuss the report.

Specifically, the study will focus on and examine alternative procurement methods for natural gas used in electric generation at the Company's major gas-fueled powered plants, located at Urquhart and Jasper, South Carolina. A comprehensive study of coal and coal transportation will also be included. This study and analysis will include, but not be limited to, the following subject matters with respect to fuel purchasing methods:

Gas

- Review alternatives to current fuel procurement practices of natural gas for Jasper and Urquhart combined cycle electric generating facilities.

Coal and Coal Transportation

- Alternative Transportation Modes in Lieu of Existing Railroads;
- Alternative Sourcing of Coal;
- Term of Coal Contracts;
- Mixture of Coal Contracts;
- Inventory Storage;
- Mine Visits to Major Producers/Suppliers;
- Meetings with CSX and Norfolk Southern;
- Use of Private (Company Owned/Leased) Rail Cars; and,
- Open Access of Rail Lines in United States.

Other

- Purchasing of Purchased Power;
- Fuel Mix (relative proportions of gas-fired generation, coal-fired generation and purchased power); and
- Overall Management Philosophy, and Established Policies and Procedures, Followed in: (i) Generation Planning, and (ii) Fuel Procurement.

5. SCE&G agrees to cooperate in good faith with ORS in its conduct of its review of SCE&G's fuel purchasing by providing information to ORS in a prompt and reasonable manner as such information is requested. Confidential information will be protected by ORS under the terms of a confidentiality agreement, to be negotiated between ORS and SCE&G and duly executed prior to the release of confidential information. SCE&G also agrees that ORS may make available to SCEUC and SMI Steel for review and copying any information made available to ORS by SCE&G for this review subject to SCEUC and SMI Steel executing a confidentially agreement with SCE&G and ORS containing the same or substantially similar terms and conditions as agreed to by ORS, if they desire to have access to confidential information. SMI and SCEUC understand they may not solicit information directly from SCE&G under the auspices of ORS's study.

6. The Parties agree that any and all challenges to SCE&G's fuel costs for the period prior to January 31, 2005, are specifically discharged, waived, and not subject to further review. Fuel cost for periods beginning on February 1, 2005 and thereafter shall be open issues for determination by the Commission in future fuel costs proceedings held under the procedure and criteria established in S.C. Code Ann. §58-27-865 (Supp. 2004).

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.


8. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This agreement integrates all discussions had among the Parties into the terms of this written document. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

9. This agreement shall be interpreted according to South Carolina law.

The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing and binding the Office of Regulatory Staff


Florence Belser, Esquire
Shannon Bowyer Hudson, Esquire

Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
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Email: fbelser@regstaff.sc.gov

WE AGREE:

Representing and binding South Carolina Energy Users Committee

Scott Elliot, Esquire
Elliot & Elliot, P.A.
721 Olive Street
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Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

WE AGREE:

Representing and binding SMI Steel

John F. Beach, Esquire
John Julius Pringle, Jr., Esquire
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Email: jbeach@ellislawhorne.com


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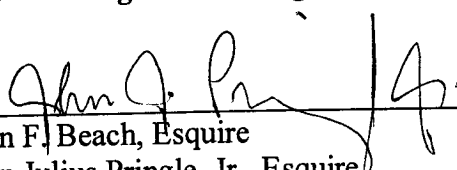
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WE AGREE:

Representing and binding South Carolina Electric & Gas Company


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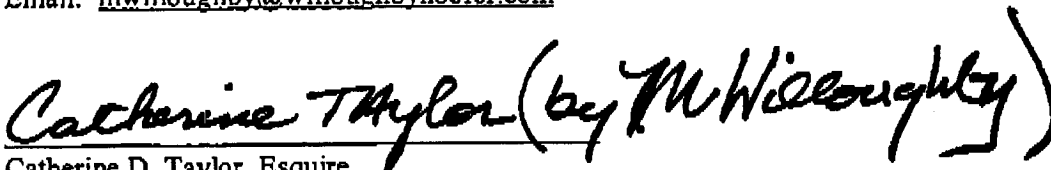
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20344-05

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2005-2-E

RECEIVED

2005 APR -1 PM 2:44

SO PUBLIC SERVICE COMMISSION

APRIL 1, 2005

IN RE:)	
)	
South Carolina Electric & Gas Company -)	JOINT MOTION REQUESTING APPROVAL OF SETTLEMENT AGREEMENT
Annual Review of Base Rates for)	
Fuel Costs)	
_____)	


COMES NOW the Office of Regulatory Staff of South Carolina ("ORS"), the South Carolina Energy Users Committee ("SCEUC"), SMI Steel – South Carolina ("SMI Steel") and South Carolina Electric & Gas Company ("SCE&G") (collectively referred to as the ("Parties")), being all of the parties of record in the above-captioned proceeding, and hereby move the Public Service Commission of South Carolina ("Commission") for an order approving the following:

1. Accepting into the record in the above-captioned case the Settlement Agreement attached hereto and the pre-filed direct testimony of ORS witnesses A.R. "Randy" Watts and Jacqueline Cherry without objection or cross-examination and immediately thereafter closing the record in this case;
2. Approving as reasonable the Settlement Agreement attached hereto and incorporated herein by this reference;
3. Ordering that SCE&G set its fuel component at 2.256 cents per kwh effective for bills rendered on and after the first billing cycle of May 2005 and continuing through the billing month of April 2006.

In light of the Settlement Agreement, the Parties believe that only Attorneys for the Parties need to appear before the Commission at the hearing scheduled for Wednesday, April 6, 2005 beginning at 10:30 a.m. to acknowledge their respective client's consent to the agreement and their respective client's belief that the agreement and new fuel factor is in the interest of the Parties and the public interest. Consequently, the Parties respectfully request that none of the witnesses be required to be in attendance at the hearing. Therefore, the Parties respectfully request that the Commission consider this motion at its agenda meeting to be held on Tuesday, April 5, 2005 and provide guidance to the Parties if the process proposed is acceptable to the Commission and if witnesses may be excused.

WE SO MOVE:

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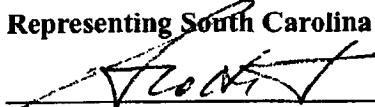
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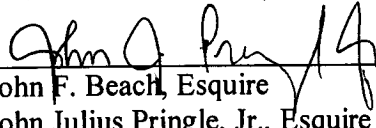
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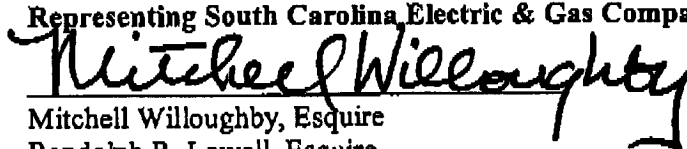
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Catherine Taylor (by M. Wilson)

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203 Y-H-105

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-2-E

RECORDED
2005 APR -1 PM 2:44
SC PUBLIC SERVICE
COMMISSION

APRIL __, 2005

IN RE:)	
)	
South Carolina Electric & Gas Company -)	PROPOSED ORDER APPROVING
Annual Review of Base Rates for)	AND ADOPTING SETTLEMENT
Fuel Costs)	AGREEMENT
)	
)	
)	

This matter comes before the Public Service Commission of South Carolina ("Commission") on the Joint Motion Requesting Approval of Settlement Agreement filed by the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), SMI Steel-South Carolina ("SMI Steel"), and South Carolina Electric & Gas Company ("SCE&G") (collectively referred to as the "Parties" or sometimes individually as a "Party").

The Parties represent to the Commission that they have engaged in discussions on the issues of this case and further that the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth in the Settlement Agreement executed by the Parties. (The Settlement Agreement is attached to this Order as Order Exhibit 1 and is incorporated in and made a part of this Order.)

After careful review of the Joint Motion and the Settlement Agreement, the Commission finds that approval of the Settlement Agreement is in the public interest as a reasonable

resolution of the issues in this case. We find that the proposal advanced by ORS witness Watts and agreed to by the Parties in the Settlement Agreement provides stabilization to the fuel factor and minimizes fluctuations for the near future. Further, the Commission finds that the two year levelization period balances the concerns of the using public while preserving the financial integrity of SCE&G. We also find that the resolution espoused in the Settlement Agreement does not appear to inhibit economic development. Additionally, the Commission finds and concludes that the Settlement Agreement affords the Parties with the opportunity to review costs and operational data for periods on and after February 1, 2005 at succeeding fuel review proceedings conducted pursuant to S.C. Code Ann. §58-27-865 (Supp. 2004).

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement attached hereto and the pre-filed direct testimony of ORS witnesses A.R. "Randy" Watts and Jacqueline Cherry are accepted into the record in the above-captioned case without objection or cross-examination;
2. The Settlement Agreement is incorporated herein by reference and is found to be a reasonable resolution to the issues of this case and further found to be in the public interest;
3. SCE&G shall set its fuel factor at 2.256 cents per kwh effective for bills rendered on and after the first billing cycle of May 2005 and continuing through the billing month of April 2006.
4. The Parties shall abide by all terms of the Settlement Agreement, including the review and study of SCE&G's fuel purchasing methods that is to be conducted by the ORS.
5. SCE&G shall file an original and ten (10) copies of the South Carolina Retail Adjustment for Fuel Cost Tariff within ten (10) days of receipt of this Order.

6. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann. §58-27-865 (B) (Supp. 2004).

7. SCE&G shall continue to file the monthly reports as previously required.

8. SCE&G shall account monthly to the ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. ORS shall monitor the cumulative recovery account.

9. SCE&G shall submit monthly reports to the ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

10. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Randy Mitchell, Chairman

ATTEST:

G. O'Neal Hamilton, Vice-Chairman